

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

March 22, 2010

The Capital Projects and Bond Oversight Committee met on Monday, March 22, 2010, at 3:00 PM, in Room 171 of the Capitol Annex. Representative Susan Westrom, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representative Steven Rudy.

Guests: John Hicks, Governor's Office of Policy and Management; Bob Wiseman, University of Kentucky; Charles Bush, Division of Real Properties; Sandy Williams, Kentucky Infrastructure Authority; and Brett Antle, Office of Financial Management.

LRC Staff: Don Mullis, Kristi Culpepper, Samantha Gange, and Jesse Fries.

Senator Buford made a motion to approve the minutes of the January 19, 2010 meeting. The motion was seconded by Representative Rudy and approved by voice vote.

Senator Buford made a motion to approve the minutes of the February 16, 2010 meeting. The motion was seconded by Senator Tori and approved by voice vote.

Representative Westrom called on Don Mullis, Committee Staff Administrator to discuss correspondence and information items. Mr. Mullis said members' folders contained several items of correspondence: a letter to Secretary Miller, Finance and Administration Cabinet, and President Gary Ransdell, Western Kentucky University, regarding lack of quorum at the February 16, 2010 Committee meeting; correspondence from Secretary Miller, Finance and Administration Cabinet, regarding approval of projects from the February 16, 2010 Committee meeting, and correspondence from Dr. Gary A. Ransdell, President, Western Kentucky University, regarding approval of a project from the February 16, 2010 Committee meeting; correspondence from the Kentucky Infrastructure Authority (KIA) regarding Mountain Water District and the Louisville Water Company; and a report of the plan by the University of Kentucky to use the Construction Management-at-Risk project delivery method for CAER Laboratory Building #2.

Next Mr. Mullis noted that member's folders also contained several information items: an Energy Savings Performance Contract for the Education Cabinet's Carl D. Perkins Training Center; Murray State University notice of reduction in scope for the Construct Electrical Generation Plant project; proposed legislation related to the jurisdiction of the Capital Projects and Bond Oversight Committee; and the staff and bond market updates.

Representative Westrom called on John Hicks, Deputy Director, Governor's Office for Policy and Management, Finance and Administration Cabinet, to report two projects. Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of an unbudgeted project for the Tourism, Arts, and Heritage Cabinet, Department of Fish and Wildlife for a land acquisition in Marion County. The project cost is \$1,825,000 and will be funded from federal funds in the amount of \$1,022,000 and \$803,000 from the Kentucky Heritage Land Conservation Fund. The project consists of the purchase of a 1,200 acre tract in partnership with the Division of Forestry and the Marion County Fiscal Court. The land will be used for hunting, fishing, and outdoor recreation.

Representative Rudy made a motion to approve the unbudgeted project. The motion was seconded by Senator Leeper and approved unanimously by roll call vote.

Next Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of an unbudgeted project for the Department of Military Affairs for the construction of roadway repairs at the Harold L. Disney Training Center. The project cost is \$750,000 in federal funds. The funds will be used to repair a portion of an existing roadway to prevent it from collapsing into the Cumberland River and to correct a danger to vehicular traffic.

In response to a question from Senator Leeper, Mr. Hicks said the Harold L. Disney Training Center was located in Barbourville in Knox County.

Representative Rudy made a motion to approve the unbudgeted project. The motion was seconded by Senator Tori and approved unanimously by roll call vote.

Representative Westrom called on Bob Wiseman, Vice President for Facilities Management, University of Kentucky (UK), to report two projects. Mr. Wiseman asked for the Committee's approval of an unbudgeted project to renovate the 4th floor of the Sanders-Brown Center on Aging. The project scope is \$6,432,134 funded by a National Institutes of Health grant derived from the American Recovery and Reinvestment Act. The renovations will include retrofitting outdated, non-compliant research support space and the associated mechanical equipment to meet current regulatory requirements. Mr. Wiseman said the project was approved by the UK Board of Trustees and the Council on Postsecondary Education is considering the project at its April meeting. However, in

order to comply with the timing requirements of the stimulus funding, action by the Committee was needed at this meeting.

Senator Carroll made a motion to approve the unbudgeted project for UK. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Next Mr. Wiseman asked the Committee for its approval of an unbudgeted project to construct the Center for Applied Energy Research Laboratory #2 (CAER). The project scope is \$19,776,913 funded by a National Institute of Standards and Technology grant (\$11,832,685), a state Energy Plan Energy Efficiency and Renewable Energy demonstration grant (\$7,000,000), and restricted funds (\$944,228). The CAER will provide laboratory space dedicated to battery manufacturing research and development. The project was approved by the UK Board of Trustees at its March meeting and the Council on Postsecondary Education at its February meeting.

In response to a question from Senator Carroll, Mr. Wiseman said UK researchers are still looking for a \$3,500,000 grant from the Energy and Renewable Energy section of the state that is currently being negotiated.

Senator Carroll asked what UK would do if they did not receive the \$3,500,000 grant. Mr. Wiseman said that UK would have to scale down the size of the project, but was requesting authorization for the full scope.

Senator Carroll made a motion to approve the unbudgeted project for UK. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

Next Mr. Mullis reported that UL has used available federal funds totaling \$350,315 to acquire one item of scientific equipment. Purchases of unbudgeted equipment must be reported to the Committee, but no action is required.

Representative Westrom called on Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet, to report two items related to leases. Mr. Bush said the first item was a report of changes in square footage for eight state leases for the period October through December 2009. The lease modifications were less than \$50,000 and did not require Committee action.

Mr. Bush said the second item was a lease renewal (PR-4095) between the Cabot Turfway Ridge Lease Company, LLC and the Department of Revenue in Florence, Kentucky for space located on Turfway Drive. No square footage increase is necessary and the annual cost of the lease is \$115,892 (no rent increase). The lease term is through June 30, 2011. No Committee action was needed.

Next Representative Westrom called on Sandy Williams, Financial Analyst, KIA to present one loan. Ms. Williams said the loan request was an amended loan for the

Mountain Water District in Pike County. The District's Repair and Maintenance Fund was underfunded by \$560,948 because the District had not made the scheduled deposits to the reserve funds. KIA is bringing the loan request back to the Committee at the request of Committee members at the February, 2010 meeting after concerns over an ongoing audit by the State Auditor's Office (Office). The amended loan conditions would require the District to make monthly payments of \$11,340 to the reserve account until January 2016. Ms. Williams said that she spoke to the Office concerning the status of the audit and they indicated at the request of the Pike County Fiscal Court, an examination is currently being conducted for the Mountain Water District from 2004 to the present. Ms. Williams noted that the Office cannot discuss the specifics of an on-going examination, but that the examination is not a full financial audit and is tailored to address specific issues.

Senator Tori said she was concerned over the media reports of the financial and operational stability of the Mountain Water District. Ms. Williams said she spoke with the Chairwomen of the Mountain Water District and got confirmation that the District is cooperating with the audit and does not seem to have concerns.

Senator Leeper made a motion to approve the amended loan condition for the Mountain Water District. The motion was seconded by Representative Rudy. Four members voted affirmatively, and two members voted "No." The motion did not pass.

Senator Buford commented that perhaps the Finance and Administration Cabinet would allow KIA to proceed with the loan to Mountain Water District. Representative Westrom indicated that a letter would be sent to the Finance Secretary by the Committee indicating lack of approval of the project.

Representative Westrom requested that KIA provide the Committee with a copy of the audit once the examination has been completed. Ms. Williams responded affirmatively.

Next Representative Westrom called on Brett Antle, Deputy Director, Office of Financial Management, to present several items. Mr. Antle said the first item was a new bond issue for the State Property and Buildings Commission (SPBC) Taxable Agency Fund Revenue Bonds, Project No. 97 in a principle amount not to exceed \$6,000,000. Proceeds from this bond issue will provide permanent financing to construct a hangar at Bluegrass Station in Lexington for the Department of Military Affairs. This project was authorized by the 2010 General Assembly in HB 302.

Senator Tori made a motion to approve the new bond issue for SPBC. The motion was seconded by Senator Leeper and approved unanimously by roll call vote.

Mr. Antle said the second new bond issue was for the Kentucky Economic Development Finance Authority (KEDFA) Industrial Building Revenue Notes, Series 2010 (Goodwill Industries of Kentucky, Inc. project). Proceeds from this conduit bond issue will 1) finance the relocation and expansion of Goodwill's corporate offices, expansion of a district office and donation centers, and establishing new donation centers; and 2) refund an outstanding 2003 adjustable-rate conduit bond issue. The bonds will be secured by a mortgage on all of Goodwill's real property and will be directly purchased by PNC Bank.

Senator Leeper made a motion to approve the new bond issue for KEDFA. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Mr. Antle said the third new bond issue was for the Turnpike Authority of Kentucky Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects) 2010 Series A (Revenue and Revenue Refunding) and Series B (Federally Taxable – Build America Bonds – Direct Payment to the Authority). Proceeds from this issue will permanently finance \$250 million of the \$400 million Road Fund supporter projects authorized by 2009 HB 536 and \$50 million of Base Realignment and Closure projects authorized in 2008 HB 406 (2008-10 Budget). No Committee action was required.

Next Mr. Antle provided three follow-up reports for KEDFA. The first report was for KEDFA Health care Facilities Revenue Bonds, Series 2010 (Masonic Homes of Kentucky, Inc. project). Projects from this bond issue will be used to: 1) construct and equip a new 186,000 square foot healthcare facility to provide 136 skilled care nursing beds and inpatient and outpatient rehabilitation, dialysis, and dementia services; and palliative care. The new facility will be located in Louisville; and 2) refinance a \$2 million line of credit established to pay for improvements to long-term care facilities located in Shelby County. The bonds were purchased directly by Stock Yard Bank and Trust. The bond issue was approved by the Committee at the November 2009 meeting.

The second follow-up report was for KEDFA Healthcare Facilities Revenue and Refunding Bonds, Series 2010 (Kentucky Easter Seal Society, Inc. project). A portion of the proceeds from this bond issue will be used to 1) provide new money for an addition to the Cardinal Hill Rehabilitation Hospital in Lexington, and 2) refund outstanding variable rate debt that has been affected by events in the financial markets. The remaining proceeds will be used to 1) refund debt outstanding from KEDFA Adjustable Rate Demand Healthcare Facilities Revenue Bonds Series 2000 bond issue, and 2) refinance an outstanding loan from the KEDFA Variable Rate Demand Revenue Bonds 1985 Series A Pooled Loan Program. The bond issue was approved by the Committee at the May 2008 meeting.

The third follow-up report was for KEDFA Healthcare Facilities Revenue Bonds (Madonna Manor, Inc. Project). Proceeds from this bond issue will finance the acquisition, construction, and equipping of health care facilities in Villa Hills. The bond issue was approved by the Committee at the November 2009 meeting. No Committee action is required on follow-up reports for previously approved bond issues.

Next Mr. Antle reported 11 new bond issues with the School Facilities Construction Commission (SFCC) debt participation for Casey County, Calloway County, Covington Independent in Kenton County, Floyd County, Floyd County, Kenton County, Madison County, Ohio County, Paris Independent in Bourbon County, Scott County, and Simpson County.

Senator Buford made a motion to approve the 11 SFCC bond issues. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Representative Westrom asked Mr. Mullis to report the new local school bond issues. Mr. Mullis said there were 15 new school district bond issues with 100 percent local debt support for Barren County, Boone County, Boone County, Boone County, Boone County, Fleming County, Franklin County, Harrison County, Laurel County, Lewis County, Nelson County, Paintsville Independent in Johnson County, Rowan County, Somerset Independent in Pulaski County, and Todd County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Senator Leeper made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 3:30 p.m.